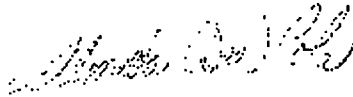


For: State and County Offices

Interest Assistance for Servicing Existing Guaranteed Loans

Approved by: Acting Deputy Administrator, Farm Loan Programs



1 Overview

**A
Background**

The Federal Credit Reform Act of 1990 requires the Agency to recognize the cost of servicing each individual loan obligation for the life of the loan. Since October 1, 1991, each loan obligation has required an obligation of funds to cover the Government's cost to service the loan funds obligation.

**B
Purpose**

This notice reminds Offices of the limited availability of interest assistance for servicing existing guaranteed Operating (OL), Farm Ownership (FO), and Soil and Water (SW) loans, to ensure that:

- interest assistance is approved only when funds are available
- the secondary market purchaser or holder, if any, will not be adversely affected.

**C
Contact**

If questions about this notice, contact the Guaranteed Loan Servicing Branch in the Loan Servicing Property Management Division through the State or Area Office.

Disposal Date

February 1, 1998

Distribution

State Offices; State Offices relay to County Offices

Notice FC-100

2 Availability of Interest Assistance

A Loans Obligated On or After October 1, 1991

Definitions: Nonsubsidized means that the loan was not obligated with interest assistance.

Subsidized means that the loan was obligated with interest assistance.

Interest assistance is not available for servicing existing nonsubsidized guaranteed OL, FO, or SW loans obligated on or after October 1, 1991.

Interest assistance is available for subsidized guaranteed OL loans. This is because at the time of approval, the cost of interest assistance was included in the subsidy factor for the loan. Interest assistance has not been available for FO and SW loans since the beginning of FY 1992.

B Loans Obligated Before October 1, 1991

Interest assistance may be approved for servicing any existing guaranteed OL, FO, or SW loan as long as the loan funds were **obligated before October 1, 1991**.

C Interest Assistance on Consolidated Loans

FmHA Instruction 1980-B, Exhibit D, Section XIII A, states, "Loans/lines of credit covered by Interest Assistance Agreements cannot be consolidated."

When existing nonsubsidized loans are consolidated, the new "cohort" established will be based on the last loan approved. Generally, a "cohort" is a group of loans made in a particular FY at similar rates and terms.

- Each cohort is assigned a subsidy rate for budgeting purposes. If the last loan approved is not eligible for interest assistance, interest assistance must not be granted.
 - Therefore, loans obligated before October 1, 1991, must not be consolidated with loans obligated on or after October 1, 1991.
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D Obligation Confirmation

County Offices must not sign FmHA 1980-64 until the interest assistance subsidy funds have been obligated and the obligation has been confirmed.

*describe the procedure
that must be followed
when purchasing*

3 Secondary Market Purchaser or Holder

A
Secondary
Market
Relationship

Holders of the guaranteed portion of a guaranteed loan expect to be paid according to FmHA 449-36. When a lender requests interest assistance, the approving farm loan servicing official shall determine whether the loan has been or will be sold on the secondary market.

- The lender should be reminded of the correct payment amount due the holder according to FmHA 449-36. If the lender complies with this condition, interest assistance may be obligated and the lender may retain the entire annual interest assistance subsidy payment received from FSA. In this case, it is not necessary to notify the secondary market of interest assistance.
- The lender should continue to remit to the holder the appropriate percentage of the borrower's original scheduled installment, as if it were not subject to interest assistance.

If the lender does not plan to pay the holder the full payment while a loan is subject to interest assistance, the:

- lender must obtain written consent from the holder and FSA to remit the lower subsidized payments
- holder's written consent will be attached to FmHA 449-36
- lender should remit to the holder the appropriate percentage of the annual subsidy payment received from FSA.

If the lender refuses to forward the entire payment to the holder and the holder refuses to accept a lower payment, according to this notice, the lender must repurchase the holder's portion of the loan, according to FmHA 449-36, paragraph 10, to allow for the approval of interest assistance.
